

HISTORIC PRESERVATION

MICHIGAN'S Historic Preservation Tax Incentives



**Michigan Historical Center
Michigan Department of State**

HISTORIC PRESERVATION TAX INCENTIVES

Historic resources are tangible links with our past. They impart a sense of identity, stability, and orientation to a community. Historic preservation tax incentives promote the preservation and rehabilitation of these resources.

Historical rehabilitation is defined as the process of returning a resource to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the resource that are significant to its historic, architectural, and cultural values.

A tax credit lowers the amount of tax owed. At present, there are two tax incentive programs in the state of Michigan that are available to owners or long-term lessees of historic resources.

- ***Federal Historic Preservation Tax Credit***
A 20 percent federal income tax credit is available for the rehabilitation of certain depreciable historic resources.
- ***Michigan Historic Preservation Tax Credit***
A state income tax credit of up to 25 percent is available for the rehabilitation of certain historic resources.

Resource owners undertaking a rehabilitation project that qualifies for the federal historic preservation tax credit must *first* apply for the 20 percent federal credit. If the project is approved for the federal tax credit, the project will be eligible only for an additional 5 percent state tax credit.

FEDERAL TAX CREDITS

The federal program is administered by the National Park Service (NPS), the Internal Revenue Service and the State Historic Preservation Office (SHPO). Since 1976, this program has spurred the rehabilitation of historic resources throughout the state, in communities of every size. The Federal Historic Preservation Tax Incentives program is one of the federal government's most successful and cost-effective community revitalization programs. Historic resources have been rehabilitated in a manner that makes them viable in today's society, yet maintains their historic integrity and the unique character of the community.



The federal income tax credit is available for depreciable resources rehabilitated for commercial, industrial, agricultural, or rental residential purposes. The credit is **not** available for resources used exclusively as an owner's residence.

To qualify for the federal income tax credit, the historic resource must be listed in the National Register of Historic Places either individually or as part of a registered historic district.

More information on the federal income tax credit is available in the brochure *Preservation Tax Incentives for Historic Buildings* published by the NPS and available from the SHPO.

STATE TAX CREDITS

In January 1999, two amendatory laws were passed that authorize a new tax credit program in the State of Michigan. These credits are available to encourage investment in Michigan's historic resources. The state tax credit program is closely modeled after the federal program. The State Historic Preservation Office (SHPO) administers the program in partnership with the Michigan Department of Treasury.



Michigan resource owners and long-term lessees who undertake qualified rehabilitations of certain historic resources can apply for a credit against their state general income tax or single business tax of up to 25 percent of qualified rehabilitation expenditures. The purpose of the tax credit program is to provide incentives to home owners, commercial property owners, and businesses to rehabilitate historic commercial and residential resources. For the first time, tax incentives are being offered to Michigan property owners for the rehabilitation of their personal residences.

REQUIREMENTS

1. The resource to be rehabilitated must be located in the State of Michigan.
2. The resource must be an eligible resource.
3. All project work must conform to the Secretary of the Interior's Standards for Rehabilitation.

4. Applicants must apply to the SHPO. To qualify for the tax credit, applicants must complete all three parts of the *Historic Preservation Certification Application*.
5. Qualified rehabilitation expenditures must be equal to or greater than 10 percent of the State Equalized Value (SEV) of the property.
6. If the resource is sold, or alterations not meeting the *Secretary of the Interior's Standards for Rehabilitation* are made within five years after the tax credit is claimed, the tax credit will be subject to recapture by the State of Michigan.

CERTIFIED HISTORIC RESOURCE

An eligible resource is defined as any historic building, structure, site, object, feature, or open space that is:

- located in a local unit of government with a population of 5,000 people or more **and** is a contributing resource in a local historic district established under Michigan's Local Historic Districts Act (P.A. 169 of 1970 as amended); **or**
- located in a local unit of government with a population under 5,000 people **and** is a contributing resource in a local historic district, **or** is listed in the State Register of Historic Sites or the National Register of Historic Places.

An eligible resource is designated a *certified historic resource* by the SHPO after the resource is reviewed and a determination of the resource's historic significance and character are made.

If a resource is located in a historic district, the *Secretary of the Interior's Standards for Evaluating Significance Within Registered Historic Districts* are used by the SHPO to determine whether the resource contributes to the significance of the district.

SECRETARY OF THE INTERIOR'S STANDARDS FOR EVALUATING SIGNIFICANCE WITHIN REGISTERED HISTORIC DISTRICTS

1. A building contributing to the historic significance of a district is one which by location, design, setting, materials, workmanship, feeling and association adds to the district's sense of time and place and historical development.
2. A building not contributing to the historic significance of a district is one which does not add to the district's sense of time and place and historical development; or one where the location, design, setting, materials, workmanship, feeling and association have been so altered or have so deteriorated that the overall integrity has been irretrievably lost.
3. Ordinarily buildings that have been built within the past fifty years shall not be considered to contribute to the significance of a district unless a strong justification concerning their historical or architectural merit is given or the historical attributes of the district are considered to be less than fifty years old.

A *local historic district* is established by a local ordinance and regulates the construction, alteration, and demolition of resources in the district. The *State Register of Historic Sites* is a program designed to assist the citizens of Michigan in the identification and recognition of historic resources through Michigan Historical Markers. The *National Register of Historic Places* is the nation's list of cultural resources worthy of preservation. Listing in the State Register of



Historic Sites or the National Register of Historic Places does not prevent a private citizen from altering, managing, or disposing of the resource.

CERTIFIED REHABILITATION

A certified rehabilitation is the rehabilitation of a certified historic resource that the SHPO has affirmed as being consistent with the historic character of the resource and, where applicable, with the district in which the resource is located. The rehabilitation must conform to the *Secretary of the Interior's Standards for Rehabilitation*.

EVALUATION OF REHABILITATION WORK

A certified rehabilitation must conform to the *Secretary of the Interior's Standards for Rehabilitation*. All projects are reviewed and evaluated in accordance with these standards.

The *Secretary of the Interior's Standards for Rehabilitation* are broadly worded to guide the rehabilitation of all historic resources. The underlying concern expressed in the standards is the preservation of significant historic materials

and features of a resource in the process of rehabilitation. The standards apply with equal force to both interior and exterior work and the SHPO reviews the *entire* rehabilitation project rather than a single aspect of the undertaking. Certification of the rehabilitation is based on whether the *entire* project meets the *Standards for Rehabilitation*.

It is assumed that some alteration of the historic resource may occur to provide for an efficient contemporary use. However, the rehabilitation must not damage, destroy, or cover materials or features, whether interior or exterior, that define the resource's historic character. The *Secretary of the Interior's Standards for Rehabilitation* are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility.

The *Secretary of the Interior's Standards for Rehabilitation* apply to historic resources of all periods, sizes, styles, types, and materials. They apply to both the exterior and the interior of historic resources. The standards also encompass related landscape features and the resource's site and environment as well as attached, adjacent, or related new construction. Further guidance in applying the standards can be found in the companion *Secretary of the Interior's Guidelines for Rehabilitating Historic Buildings*.



SECRETARY OF THE INTERIOR'S STANDARDS FOR REHABILITATION

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
3. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a property shall be preserved.
6. Distinctive historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.

8. Significant archaeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

APPLICATION PROCESS

To qualify for the tax credit, applicants must complete the *Historic Preservation Certification Application*. The application is composed of three parts.

- ***Part 1 - Evaluation of Eligibility.***

Certified historic resource status is obtained by completing Part 1 of the application. The SHPO reviews the application and determines whether the resource is a certified historic resource. Additionally, if the resource is located in a local historic district, this must be verified and a *Declaration of Location* form must be submitted.

- ***Part 2 - Description of Rehabilitation.***

To ensure that a planned rehabilitation is consistent with the historic character of the resource, Part 2 of the application is submitted to the SHPO for review and approval. The SHPO evaluates the rehabilitation project for conformance with the *Secretary of the*

Interior's Standards for Rehabilitation. If necessary, the SHPO advises applicants, and provides technical assistance and literature on appropriate rehabilitation treatments. To determine if the amount of the rehabilitation expenditures is sufficient to qualify for the state tax credit, a *Verification of the State Equalized Value* form must be submitted.

- ***Part 3 - Request for Certification of Completed Work.***

Certification of the project is obtained when the rehabilitation work is completed. Part 3 of the application is submitted to the SHPO for review and approval. A project designated by the SHPO as a certified rehabilitation is approved for purposes of the tax credit and both the applicant and the Michigan Department of Treasury are notified.



Parts 1 and 2 of the application may be submitted at the same time. ***Prior*** to beginning ***any*** rehabilitation work, Parts 1 and 2 of the application should be submitted to and approved by the SHPO. This will minimize the risk encountered by the applicant. Part 3 will not be reviewed until Parts 1 and 2 are on record and have been acted upon and the review fees as required have been paid.

The Historic Preservation Certification Rules (1999 ACS, R399.47) prescribe that applicants are responsible for the payment of application processing fees. A \$25 fee is required for Part 1 applications if a *Declaration of Location* form is submitted. There is no fee for Part 2. The fee for the review of the Part 3 application is based on the dollar amount of the qualified rehabilitation expenditures. These fees are detailed in the schedule below

FEE FOR REVIEW OF PART 3	
<i>Fee</i>	<i>Qualified Rehabilitation Expenditures</i>
No fee	\$0 to \$999
\$25	\$1,000 to \$3,999
\$100	\$4,000 to \$9,999
\$250	\$10,000 to \$19,999
\$500	\$20,000 to \$99,999
\$800	\$100,000 to \$499,999
\$1,500	\$500,000 to \$999,999
\$2,500	\$1,000,000 or more

Applicants applying for the federal tax credit and desiring the additional state tax credit need to submit two complete copies of each part of the federal *Historic Preservation Certification Application*. Additionally, applicants must submit the *Declaration of Location* form and the *Verification of the State Equalized Value* form as required by the State of Michigan.

Applicants using the federal program must pay the \$25 *Declaration of Location* fee and all federal review fees, but they are not subject to the Part 3 review fee required by the State of Michigan.

QUALIFIED REHABILITATION EXPENDITURES

A state tax credit of up to 25 percent may be taken on qualified rehabilitation expenditures. Qualified rehabilitation expenditures are costs incurred through rehabilitation work undertaken on the resource itself and can also include fees associated with the rehabilitation such as architectural and engineering fees, site



surveys, legal expenses, and development fees. Qualified rehabilitation expenditures do not include costs of acquiring or furnishing the resource, new additions that expand the volume of the existing resource and construction of new facilities related to the resource.

Qualified rehabilitation expenditures must be equal to or greater than 10 percent of the State Equalized Value (SEV) of the property rehabilitated to qualify for the state tax credit.

CLAIMING THE TAX CREDIT

The tax credit is generally allowed in the taxable year that the rehabilitated resource is placed in service. If the tax credit exceeds the taxpayer's liability for the tax year in which it is initially claimed, the remainder may be carried forward for up to ten years.



RECAPTURE OF THE CREDIT

An owner must maintain possession of the resource for five years after the year in which the tax credit is initially claimed. If the resource is sold within this time period, an appropriate percentage of the tax credit will be subject to recapture by the State of Michigan.

A resource may be inspected by an authorized representative of the SHPO at any time during the ten year period after the year in which the tax credit is initially claimed. Certification may be revoked if the rehabilitation work was not completed as described in Part 2 of the application, or if unapproved alterations not conforming to the *Secretary of the Interior's Standards for Rehabilitation* were made. If certification is revoked, the entire tax credit will be subject to recapture by the State of Michigan.

For more information regarding the federal or state historic preservation tax incentives programs, or to receive application materials, please contact the SHPO.

Additional information can be found on the SHPO's web site at www.sos.state.mi.us/history/preserve/preserve.html. This web site includes a list of federal and state preservation-related publications such as *Guidelines for Rehabilitating Historic Buildings* and *Preservation Briefs*. This web site also provides links to the NPS web site on the federal tax incentives program.

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PHOTO CREDITS

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East Elm Street Historic District, Monroe
Residence in Boardman Neighborhood Historic District, Traverse City
Westover Building, Bay City
Residence in Marshall Historic District
Detail, Commercial building in Quincy Street Historic District, Hancock
Residence in Henderson Park Historic District, Kalamazoo
Back Cover: Maple Street Historic District, Battle Creek

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